



North Africa Hardball

Country scenarios for 2014

In preparation for Cross-border Information's North Africa Hardball meeting on 16 December, directors **Jon Marks** and **John Hamilton** presented a number of country scenarios to give pointers to North Africa's political and energy industry outlook in 2014

Cross-border Information's North Africa Hardball meeting, held in London on 16 December, discussed personalities, events and trends that will influence politics, policy and business across the Maghreb and Egypt in 2014. The meeting – attended by several major energy companies and investors – included a scenario-building exercise intended to inform the meeting's two sessions of discussion on political and policy trends, a session on finance and energy, and a concluding scenario-building exercise. Below is a round-up of the scenarios set out for Hardball participants.

Algeria

Regeneration elusive

President Abdelaziz Bouteflika is most likely to be re-elected next April, despite being debilitated by the stroke he suffered in April 2013. Constitutional changes allowing him to be elected for a fourth term must be put in place by February or March. These changes are expected to create the position of executive vice-president (VP), to do much of the work Bouteflika can no longer do.

- There is a consensus among Algeria-watchers that the revived Bouteflika candidacy is now supported by a majority of the ruling elite and that it is unlikely that a credible rival can emerge from any other quarter. It would take a super-human effort for the infirm Bouteflika to personally regain much power and authority, despite a more active presidency during H2 2013, when prime minister Abdelmalek Sellal put in a full programme of visits and other duties that gave an idea of how the executive VP role might work.
- The presidential election is expected to be marked by low turnout, pointing to popular apathy.
- Reforms to the Département du Renseignement et de la Sécurité military intelligence service, removing many of its responsibilities and replacing a handful of its most

senior generals, are most likely not the result of a Bouteflika fightback – as was thought when Bouteflika signed a flurry of documents announcing a major reshuffle (potentially a purge) last September – but rather the signal of a grand bargain between factions. This will lead to the eventual departure of the Bouteflika clan, along with the current generation of senior military and intelligence leadership, while the main structures of the regime remain in place. Generational renewal in the military establishment is unlikely to bring in fresh thinking

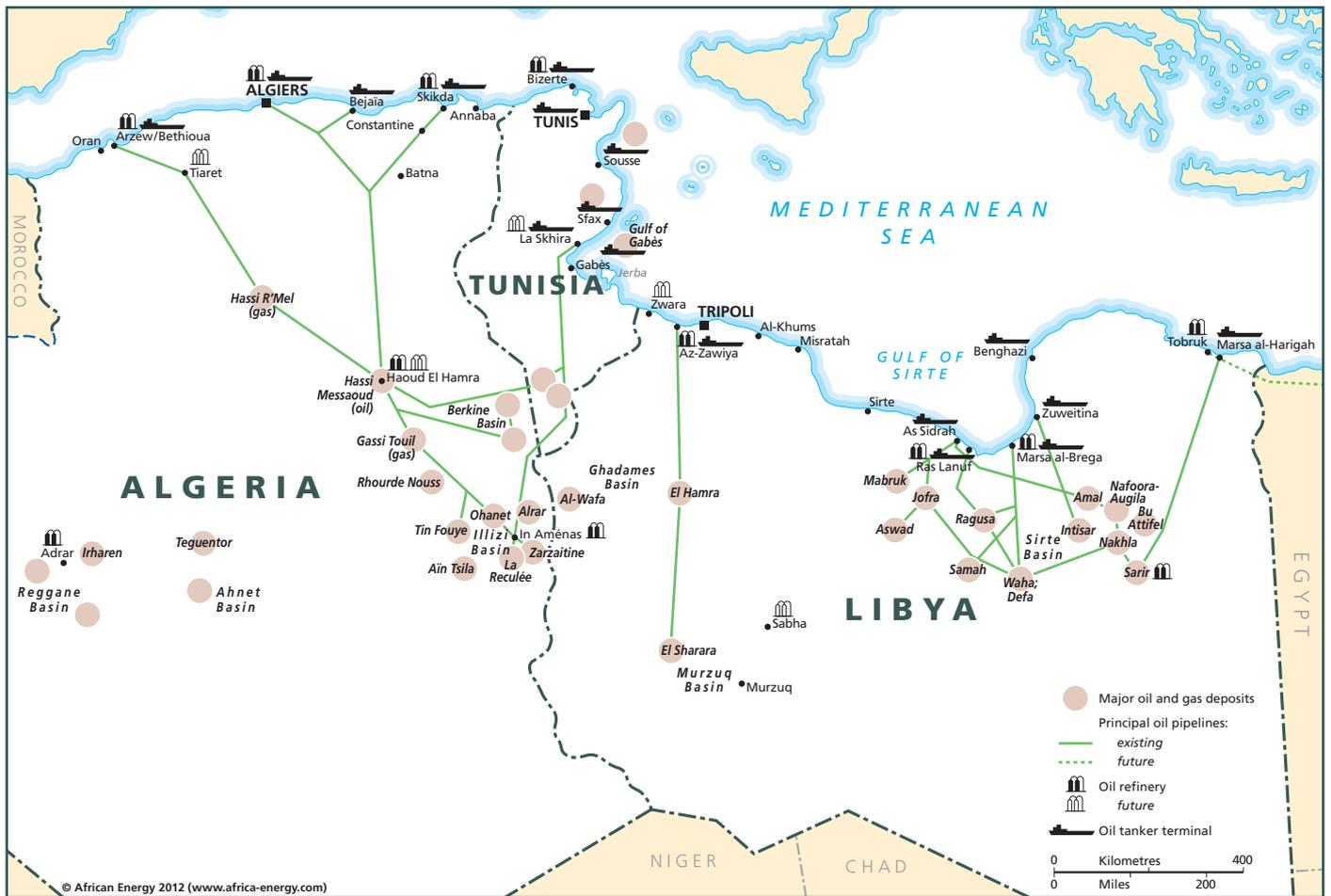
- The government and the military will continue to focus resources on combating the Islamist threat from Libya, Mali and other regional trouble spots. They will ensure control over southern border and desert areas. Thus, although intermittent terrorist attacks will continue, a perception that the security forces are back in control will eventually start to persuade international oil companies (IOCs) that the threat of another In Aménas-type incident has receded and that the environment is sufficiently secure to bring foreign staff back to more vulnerable areas (*AE 263/1*).

- Failure to create opportunities for young people means that protests will continue to trouble the regions. The great threat for the ruling elite is that these high levels of discontent are eventually channelled onto the street of Algiers, to an extent that even the beefed-up security forces cannot easily contain.

Algerian economy and hydrocarbons

International companies will continue to find Sonatrach a difficult partner to work with on security and wider issues. This is despite the likelihood that the leadership team appointed in September will reduce the intensity of anti-corruption investigations.

- Oil and gas sector regulator Alnaft is expected to hold a licensing round after the presidential elections. This will include some of the most prospective areas to have been



offered in recent times. However, the amended hydrocarbons law is still not sufficiently attractive.

- Sonatrach will drive forward its own exploration as production from existing gas reserves continues to decline. Algiers will remain keen on promoting its non-conventional potential, for which more flexible terms are promised, but overall it will stick to its existing policy, confident that it has enough gas to meet commitments. With the Gassi Touil integrated liquefied natural gas (LNG) scheme and Rhourde Nouss field coming on stream, Sonatrach prefers to emphasise the estimated 7bcm of new natural gas capacity it expects to have by end-2013 (supplying the new 4.7m t/yr capacity LNG train at Arzew), rather than countering criticism that it will be unable to meet export contracts and demands for much more gas for Sonelgaz's power plant developments later in the decade (*AE 266/13*).
- Falling exports, combined with fluctuating world prices, may oblige the government to run budget deficits, although high levels of foreign reserves mean an old-style International Monetary Fund intervention is highly unlikely – although Algeria would benefit from more structural adjustment at all levels.

Egypt

Polarisation as military imposes civilian rule

- With the army seeking to return to civilian rule without giving up control of the political arena, the Egyptian people will approve a draft constitution in a referendum in

January, paving the way for presidential and parliamentary elections soon after. There is little chance that the revised constitution will provide a foundation for the polarised country's stabilisation.

It is still not certain that defence minister General Abdelfattah El Sisi will run for president – although he apparently foresaw such an outcome in a dream – but there is no chance that the Muslim Brotherhood will take part in the parliamentary contest. The Brotherhood is already half way towards being officially outlawed, and the fate of former president Mohammed Morsi and other leaders hangs by a thread, with military hardliners in control of policy and much of the judiciary.

- Sisi enjoys popularity among his supporters, and may be tempted to become the fourth Egyptian officer to give up his uniform for the presidency. However, he could yet adopt an 'Algerian model', under which the military (which the constitution has given the status of an autonomous branch of government) would control events behind a civilian political façade. Sisi is said to be far from being the most radical within the current military leadership (which owes its elevation to his adroit moves in leveraging the retirement of former military commander Field Marshal Mohamed Hussein Tantawi and others of his generation in early summer).
- The constitution will guarantee the judiciary's autonomy (but not its reform) and the Al-Azhar religious complex, but the overall political tone will be authoritarian, rather than democratic.

- Sisi could overtly reoccupy the space vacated by former president Hosni Mubarak. As well as removing any vestigial pretence of genuine democratic reform, this would make him directly responsible for Egypt's performance in meeting popular aspirations to jobs, improved services and living standards, at a time when social and economic indicators are unfavourable. In this context, indirect rule may seem the best option for Egypt's current power-brokers.

- What remains of the Muslim Brotherhood leadership following the imprisonment of most senior cadres is unlikely to opt for co-operation. This would mean renouncing both its former leadership and its principles. This threatens another 'Algerian' scenario, by which Islamists opt for violent struggle against the regime, although they may choose to follow a 'Mubarak' scenario, under which the Brotherhood goes back underground. It is possible that different factions within the Islamist movement will take different courses. It is hard to view any of the outcomes positively.

Egyptian economy and hydrocarbons

With Sinai becoming increasingly violent and ungovernable, and negative newsflow abroad frightening off visitors, income from tourism is unlikely to increase in the foreseeable future. There is little chance of the next elected government embarking on serious reform of subsidies. So far, the national accounts have been supported by \$12bn in interest-free loans from Saudi Arabia, Abu Dhabi and Kuwait as a reward for removing the Brotherhood from power. However, this masks the unsustainability of Egypt's economic model – and there are signs that Gulf largesse is finite.

- To avoid power blackouts next summer, Egypt must strike a commercial LNG import or swap deal on the international market.
- For many oil and gas producers, new investments in the sector are unjustifiable while there is no credible plan for reducing arrears owed to them by Egyptian General Petroleum Corporation. Major players seem likely to stick in for now, looking to protect huge investments, but even their patience may be finite. The government has promised a formula for repaying arrears – in part, implicitly underwritten by funds from the Gulf – which, if followed, would do much to rebuild confidence.

Libya

Politics and security

Libya faces a number of crucial milestones as it seeks to hold together the post-revolutionary state. Despite some hopes that a vote may be held to elect the 60-member Constitutional Commission before January, it is more likely that the transition process, which began in October 2011, will collapse. It is technically possible for the unpopular General National Congress (GNC) to extend its term beyond February; and prime minister Ali Zeidan may also hold on to power. But the consensus necessary to put new institutions in place does not exist. Libya therefore faces an extended period of instability.

- The national army's ability to fill the vacuum left by the withdrawal from Tripoli of the Misratah militias and other powerful armed groups is doubtful. None of the fighters who pulled out have given up weapons or submitted to justice those guilty of firing on unarmed protesters. Of the two regional militia power bases struggling for control of the capital, Zintan has more to lose than Misratah. Zintan has no commercial strength, while Misratah is well represented throughout the government, congress and administration, so will continue to exert influence.

- The Muslim Brotherhood and Justice and Construction Party have been severely damaged by their failure to remove Zeidan, either by a vote in the GNC or through a coup. Despite being unpopular outside their core base, they still command influence in current institutions.

- The self-appointed autonomous government of Cyrenaica will achieve very little, having no financial resources, and little popular support. It is highly unlikely ever to succeed in selling its own oil. Fighting and targeted assassinations are likely to continue in Benghazi, where neither Colonel Wanis Bukhamada's Saïqa (Thunderbolt) special forces brigade nor extreme Islamist Ansar Al-Sharia groups are likely to decisively gain the upper hand against the other.

Libyan economy and hydrocarbons

Libyan oil is unlikely to flood back onto the international market any time soon. The ongoing blockades of oil export terminals – particularly those in the east – are unlikely to be resolved soon (*AE 267/16*). At best, one or two terminals will reopen in coming months. Lifters of crude have not yet agreed new term contracts for 2014 – and this will not happen until stability returns. It will not be possible to write the next budget without calling on foreign currency reserves.

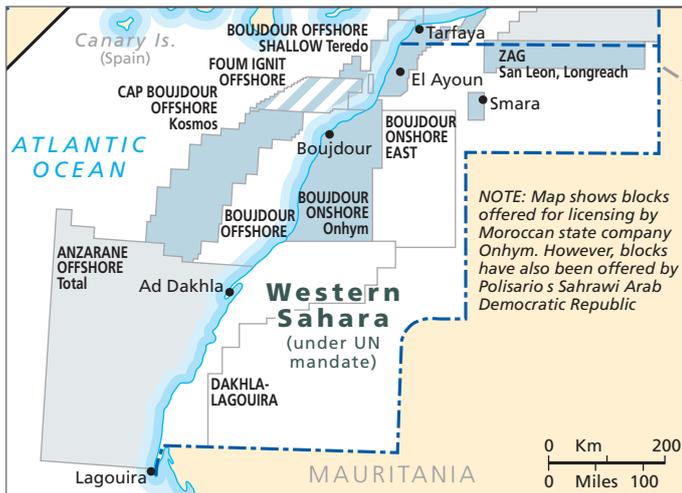
- The impact of lost revenue, combined with the high level of corruption and lack of oversight of state spending, means the government probably does not know how much liquidity it possesses. The political impact of sudden cuts in government expenditure will be severe.

Morocco

Macro pressures on a functioning economy

- Despite rumblings of popular discontent, no significant threats are likely to emerge to challenge the power and authority of King Mohammed VI ('M6'). Whether the monarch – and his entourage – will retain a distance from day-to-day political and economic management is a key question. In the longer term, M6's strategy of deflecting popular dissatisfaction from the ruling establishment onto governments led by opposition parties may not be sustainable. The popular touch and reputation for honesty of the moderate Islamist prime minister Abdelillah Benkirane will make it harder for the King to use him as a political shield if economic conditions deteriorate further.

- Some government departments, at least, are failing to deliver needed results, and the coalition has tended towards political drift. However, the economy's relatively



good performance and Benkirane's personal following will probably be enough to ensure that the Parti de la Justice et du Développement (PJD) is again the largest party after the expected 2015 general election.

- The Mouvement de 20 Février youth protest movement that emerged in 2011 has not gone away, but it lacks real traction. Some hard-line opponents of Islamist politics may dream of replicating an Egyptian-style popular rejection of the Muslim Brotherhood-aligned PJD, but they have neither the popular support nor the organisational capability.
- The more radical, officially unrecognised, Islamist movement, represented by Al-Adl wal Ihsane (Justice and Spirituality) – whose historic leader Sheikh Abdessalam Yassine died in 2012 – has struggled to build support in competition with the PJD, particularly while the economy remains stable and a groundswell of popular support for the monarchy (to which the PJD subscribes) persists.

Moroccan economy and energy

Compared to the rest of the region, Morocco is doing well. A steady but unspectacular economic performance, supported by tourism and a healthy level of foreign investment will insulate the political system from negative shocks in the short/medium term. More reforms to the subsidy system may even be possible – which is essential, as fuel and (to a lesser extent) other subsidies threaten a budget crisis, forcing Morocco to take on more foreign debt. Morocco has raised dollar-denominated debt with ease, and should continue to do so even if margins get tighter.

- Energy diversification – especially wind and solar projects – will continue even if offshore oil and gas exploration is successful (AE 247/23). Majors now see big potential in the Moroccan offshore; the drill bit will decide whether they are right (AE 264/8).

Resources battle in Western Sahara

The offshore well planned by Kosmos Energy and partner Cairn Energy in a Moroccan-licensed block in the Western Sahara will test the consensus on non-exploitation of hydrocarbons that has prevailed for the last 40 years in the territory, whose sovereignty is claimed by Morocco

and the Algeria-backed Polisario Front liberation movement (AE 265/1, 263/21).

- Central to arguments will be the legal opinion issued by UN general counsel Hans Corell in 2002, which stated that exploration and extraction of mineral resources in Western Sahara would be illegal “only if conducted in disregard of the needs and interests of the people of that territory” (AE 266/24).
- Morocco's attempts to consolidate its sovereignty over Western Sahara could provoke a further deterioration of relations with Algeria, while also undermining the resolve of western governments to support the UN mandate. Given rising international interest in the region's security – with the fallout from the Sahel crises impacting on Maghreb affairs – a new initiative to finally resolve the dispute may emerge.

Tunisia

Politics and security

- The negative trends that have undermined Tunisia's democratic transition over the past 12 months are likely to worsen, with more intense popular protests, and more incidents of Islamic terrorism and other factionalised political violence. Decision-making has been hampered by delays in the appointment of the technocratic ‘national unity’ administration, which would oversee a possible referendum on the constitution and/or presidential and parliamentary elections, while implementing more efficient policy and services delivery than has been apparent in the Islamist Ennahda-led government.

Progress was finally announced on 14 December, with the appointment of former industry minister Mehdi Jomaa as premier. A 51-year-old engineer from Mahdia, who headed Total's aerospace and defence division, Jomaa must select a government that analysts believe could be in place for up to a year. Any delays to this process will further undermine popular confidence and support. Nevertheless, Tunisia's traditionally moderate political culture may again enable the country to pull itself back from the brink of organisational chaos and political polarisation.

- A new constitution and elected government should finally be put in place during H1 2014. Meanwhile, few major strategic decisions will be made, or can be implemented.
- Radical Islamist groups are putting pressure on Ennahda, whose credibility among the electorate has suffered even if it retains a core body of followers. Its established support network and historic credibility, especially in poorer areas and the provinces, should help it remain the biggest party in parliamentary elections.
- Former supporters of Zine El Abidine Ben Ali's Rassemblement Constitutionnel Démocratique (RCD) machine have been regrouping – many within the Nidaa Tounes (Call of Tunisia) movement, which has emerged as Ennahda's biggest political rival.
- Organised labour, represented by the Union Générale

des Travailleurs Tunisiens, is another force to be reckoned with – as a counterweight to Ennahda, but also to the pro-business sentiments promoted by ‘technocrat’ governments. The return of radicalised labour unions and other social pressures is adding to political complexity, with leftist sentiment reflected in the blocking of liberal candidates, such as former finance minister Jaloul Ayed, to lead the planned transitional government.

- To maintain broad popular support, Ennahda will have to keep on attacking ultra-radical Salafist groups, even amid suspicions that they are sometimes linked at an individual level and may be carrying out political dirty work on Ennahda’s behalf.
- Salafists are expected to carry out more high-profile assassinations of leftist politicians. Further conflict between the security forces and Al-Qaeda in the Islamic Maghreb jihadists will occur in Jebel Chaâmbi or other remote regions. The army is respected, but small and stretched – the security forces need help. A traumatised and overwhelmed police and Ministry of Interior will also struggle to regain the initiative.

Tunisian economy and hydrocarbons

Occasional high-profile bouts of violence will undermine the recovery of tourism and the economy in general. This is exacerbating unemployment and the perception that nothing has been done to improve living standards and create jobs since Ben Ali departed. However, despite the security concerns, international operations will continue more or less unhindered. Businesspeople canvassed by Cbl are confident that the investment-friendly culture will not be destroyed. Even under an Islamist government, Tunisia remains the region’s most Europe-friendly country.

- Hopes that shale gas could provide an eventual source of domestic cheap energy will be undermined by entrenched popular opposition to fracking technology. But the authorities will push for more exploration, for conventional and non-conventional reserves, seeing this as essential to counter declining hydrocarbons production and increased dependence on imports (*AE 265/11, 265/12*).

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London

T: +44 (0)207 839 5982

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